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South Dakota Agricultural Land Values and Cash Rental Rates: 2008

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SOUTH DAKOTA AGRICULTURAL LAND VALUES AND CASH RENTAL RATES, 2008

by
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We wish to thank the individuals who participated in the 2008 South Dakota Farm Real Estate Market Survey. Without their responses this report would not be possible. Special thanks to: Emmanuel Opoku for conducting the survey and data input and Penny Stover for maintaining the mailing list and varied survey tasks.

South Dakota's agricultural land values increased 22.5% this past year. The average value of agricultural land (as of February, 2008) varies from $295 per acre in the northwest region to $2,473 per acre in the east central region. These are key findings from the 2008 South Dakota Farm Real Estate Market Survey completed by 231 agricultural lenders, Farm Service Agency officials, rural appraisers, assessors, realtors, professional farm managers, and Extension agricultural educators.

This is the eighteenth annual SDSU survey designed to estimate agricultural land values and cash rental rates by type of land in different regions of the State. The information in this ***Economics Commentator*** provides an overview of current findings across South Dakota. We caution the reader to use this information as a general reference, and to rely on local sources for more specific details.

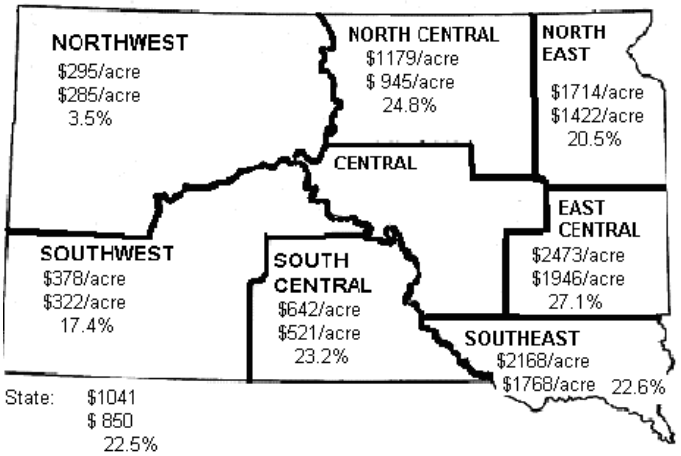
Respondents provided county land value and cash rental rate information by agricultural land use. Responses, grouped by region with average values for all classes of land, are provided in Figure 1. Separate estimates of land value and cash rental rate information for nonirrigated cropland, irrigated land, hayland, rangeland, and tame pasture are provided in Figures 2-4.

Average Land Value Summary

As of February 2008, the average value of all agricultural land in South Dakota was $1,041 per acre, a 22.5% increase from one year earlier. This rate of increase is higher than the previous record high increase of 20.2% from 2004 to 2005.

The increase of $191 per acre in the value of all agricultural land is the highest annual dollar per acre increase during the past 18 years. Overall, agricultural land values in South Dakota have doubled since 2003 and **quadrupled since 1994!** Agricultural land values increased in all regions of South Dakota with the strongest increases of 28.1% in the central and 27.1% in the east-central regions. In all other regions, land values increased between 3.5% and 24.8%.

Figure 1. Average value of South Dakota agricultural land, February 1, 2008 and 2007, and percent change from one year ago.



Regional and statewide average values of agricultural land are the weighted averages of dollar value per acre and percent change by proportion of acres of each nonirrigated land use by region.

Top = Average per-acre value---February 1, 2008
Middle = Average per-acre value---February 1, 2007
Bottom = Annual percent change in per-acre land value

Source: 2008 South Dakota Farm Real Estate Market Survey, SDSU.

The all-land average values are highest in the five eastern and central regions with per acre values ranging from $2,473 in the east-central region to $2,168 in the southeast region and $1,152 in the central region. The per acre increase in all-land values from 2007 to 2008 varied from $527 per acre in the east-central region to $234 per acre in the north-central region.

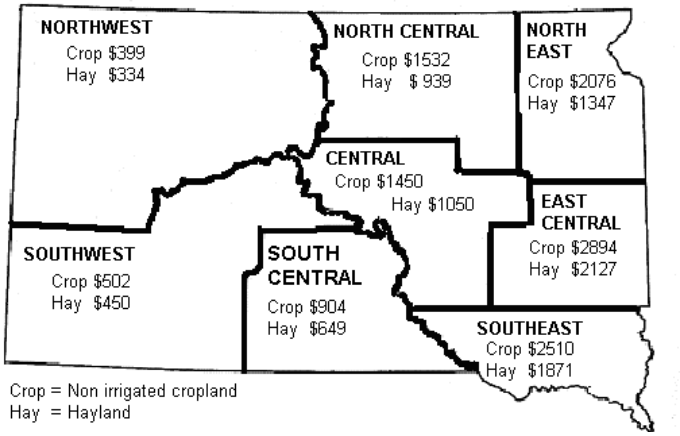
Agricultural land values are highest in the east central region, followed by the southeast region. Cropland and hayland are the dominant land uses in these regions, which contain the most productive land in South Dakota. The lowest average land values are found in the northwest and southwest regions.

In each region, per acre values are highest for irrigated land, followed in descending order by nonirrigated cropland, hayland or tame pasture, and native rangeland. Within each region, there is substantial variation in per acre land values by use and land productivity (Figures 2 and 3).

Cropland values have been increasing at a much slower rate in the two western regions, especially compared to the more cropland intensive regions east of the Missouri River. For example, cropland values in the northwest and southwest regions doubled from 2001 to 2008, while cropland values more than tripled during the same period in the east-central, northeast, central, and north-central regions.

From 2007 to 2008, cropland values increased $650 per acre in the east-central region, $511 per acre in the southeast, and $314 per acre in the northeast region, which are all time high changes. Cropland values in these three regions are increasing because of greatly improved returns in corn and soybean production.

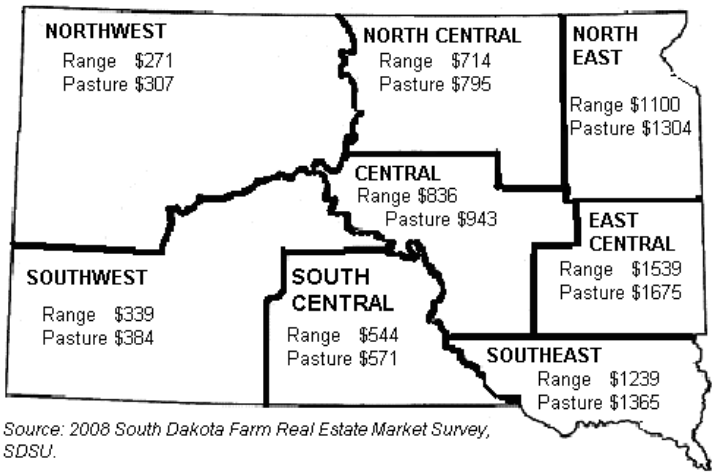
Figure 2. Average value of South Dakota cropland and hayland, by region, February 2008, dollars per acre.



Source: 2008 South Dakota Farm Real Estate Market Survey, SDSU.

These three eastern regions contain 45% of South Dakota's cropland. Corn and soybeans are the major crops in most counties.

Figure 3. Average value of South Dakota rangeland and tame pasture, by region, February 2008, dollars per acre.



Source: 2008 South Dakota Farm Real Estate Market Survey, SDSU.

South Dakota hayland values averaged $1,079 per acre as of February 2008, a 23.3% increase from one year earlier. This is the first time that statewide hayland values exceeded $1,000 per acre. Very strong increases in hayland values (from 23.6% to 31.0%) occurred in six regions compared to an increase of 12.8% in the southeast and 2.1% in the northwest region. Statewide, hayland values have almost doubled since 2004 and quadrupled from 1994.

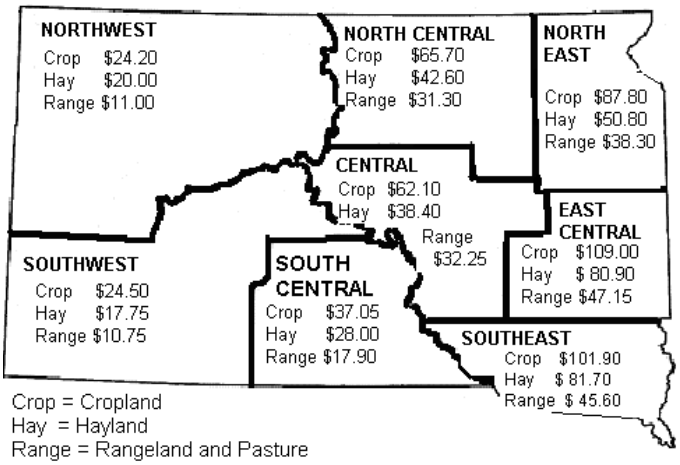
In February 2008, the value of South Dakota native rangeland averaged $508 per acre, while the average value of tame pasture was $809 per acre. Native rangeland is concentrated in the western and central regions of South Dakota, while tame pasture is concentrated in the central and eastern regions.

The statewide average values of rangeland and tame pasture increased 13.4% and 18.3%, respectively, during the past year (Feb. 2007 to Feb. 2008). This is the sixth consecutive year that double-digit increases in both pasture and rangeland values occurred in South Dakota.

Average Cash Rental Rate Summary

The cash rental market provides important information quite variable among South Dakota regions. Within each region, the average annual cash rental rates are highest for cropland and lowest for pasture and rangeland. Cash rental rates are highest in the east-central region for crop and rangeland and lowest in the western regions for all land uses (Figure 4).

Figure 4. Average cash rental rate of South Dakota nonirrigated cropland, hayland, and rangeland, by region, 2008, dollars per acre.



Source: 2008 South Dakota Farm Real Estate Market Survey, SDSU.

From 2007 to 2008, statewide average cash rental rates increased $9.90 per acre for cropland, $5.80 per acre for hayland, and $1.40 per acre of pasture/rangeland. The average percentage increase was 15.2% for cropland, 13.9% for hayland, and 8.1% for rangeland. In general, cash rental rate increases were greatest in the same regions where the strongest land value increases were reported. Average cash rental rates in 2008 for non-irrigated cropland vary from $24.20 to $24.50 per acre in the western regions to $101.90 per acre in the southeastern region and $109.00 per acre in the east-central region.

Hayland cash rental rates in 2008 vary from an average of $17.75 to $20.00 per acre in western South Dakota regions and from $81.70 to $80.90 per acre in the southeast and east-central regions, respectively.

Rangeland and pasture average cash rental rates vary from $10.75 to $11.00 per acre in western South Dakota to $45.60 per acre in the southeast region and $47.15 in the east-central region. Rangeland rates per AUM in 2008 vary from an average of $21.00 per AUM in the northwest region to $29.80 per AUM in the southeast region. Rates in the three central regions varied from $26.90 to $27.80 per AUM. Rental rates per AUM increased in most regions from 2007 to 2008.

Rates of Return to Agricultural Land

The gross rent-to-value ratio (gross cash rent as a percent of reported land value) is a measure of gross rate of return to land, before deduction of property taxes and other landlord expenses. In 2008, the statewide average gross rate of return (rent-to-value ratio) is 4.6% for non-irrigated cropland, 4.4% for hayland, 3.9% for rangeland, and 4.2% for all agricultural land. From 2006-2008, the statewide average gross rate of return to all non-irrigated agricultural land has been lower than 5%, compared to 7.4% during the 1990's and above 6% from 2000-2003.

Respondents were asked to estimate net rates of return to agricultural land ownership in their locality, given current land values. Average net rates of return for 2008 varied from 4.7% for non-irrigated cropland to 4.2% for hayland, and to 3.4% for rangeland and pasture, and averaged 3.9% for all agricultural land. This is the fourth consecutive year during the past 18 years that average net rates of return for all-agricultural land were below 4%.

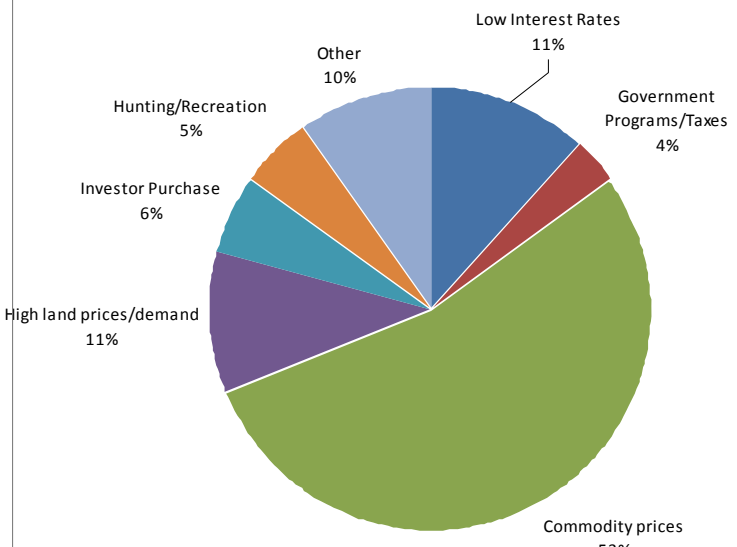
Ag Land Market Factors

Respondents listed major positive and negative factors affecting the farm real estate market in their localities. These factors help explain changes in the amount of farmland for sale, sale prices, and rental rates (Figures 5 and 6).

This year, 53 percent of respondents indicated commodity prices as positive factors in the farm real estate market. Eleven percent indicated high prices/demand for land and low interest rates as positive factors. Drought / weather conditions and higher input costs (especially fuel, energy, and fertilizer cost) were the two most common responses cited as negative factors.

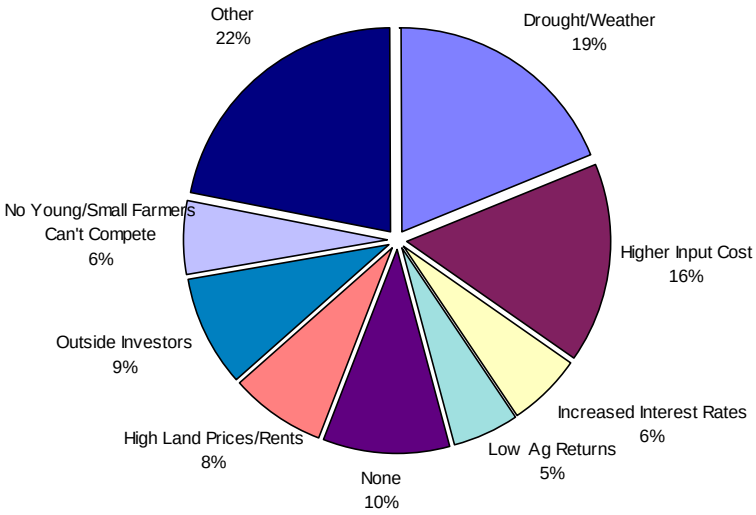
In 2007 and 2008, relatively low interest rates were still cited as a positive factor, but increasing interest rates were also cited as a negative factor in the farmland market. Investor purchases were frequently cited as

Figure 5. Positive factors in the farm real estate market



positive factors, while few young farmers and small farmer's inability to compete with large operations, and outside investors were often cited as negative factors.

Figure 6. Negative factors in the farm real estate market



Respondents were divided in the assessment of investor interest in farm real estate and continued escalation of farmland prices. High demand for farmland was a positive factor (8%), while high land prices and cash rental rates were cited as a negative factor (8%). Investors (mostly non-local) were listed as a negative factor and as a positive factor.

Respondents identified major reasons for buying and selling farmland. Farm land expansion and investment purposes were the most common responses for purchasing, along with hunting/recreation and commodity prices/farm profits.

From 2000 to 2008, the major shift in reasons for selling farmland has been the increase in responses of favorable market conditions for sellers, 44% in 2008 compared to 17% in 2000. The proportion of respondents listing retirement, estate settlement, or financial pressures as the major reasons for sale declined during the same period.

Respondents to the 2008 survey are very optimistic about further increases in farmland values, with no one predicting declines in land prices and very few predictions of declines in cash rental rates. Prospects of major increases in input expenses, possible increases in long-term interest rates, and growing concerns about future federal farm program legislation are not sufficient to change their optimistic outlook. A major increase in crop prices since 2006 and prospects for continued higher crop prices is fueling this optimism. Recent increases in cash rental rates of 15 to 16% provide further confirmation.

For more detailed information, a full copy of South Dakota Farmland Market Trends, 1991-2008, by Janssen and Pflueger, has been published. It may be accessed at: http://agbiopubs.sdstate.edu/articles/C273.pdf
NOTE: This special edition of the ***Commentator*** is being made available electronically on our website at: http://econ.sdstate.edu/research/commentator/no500.pdf . Our policy remains to provide electronic copies several weeks after our subscribers have received the newsletter.

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